

# NCUA News

## CUs Paid Largest Fund Dividend

The NCUA Board waived a 1998 insurance premium and voted to return \$108 million, the largest dividend in the Fund's history, to the federally insured credit unions as the National Credit Union Share Insurance Fund equity ratio surpassed 1.30 percent for the third consecutive year.

"A strong economy and sound credit union system enabled the Fund to experience another successful year with minimal failures and record income," Chairman Norman E. D'Amours said "This good news translates into dividend dollars for credit unions who work so hard to see that their members are accorded the opportunity to save and borrow in a nonprofit, cooperative financial institution."

Attending his first meeting, new Board Member Dennis Dollar said, "There is nothing I would rather do as my first vote on the NCUA Board than make the motion to pay credit unions a dividend. The industry is strong and vital, and I am honored to be able to invest in the credit unions that work so hard each day to protect their members' interest."

Checks were issued Oct. 31 from the Fund's equity base of \$3.7 billion. Fund earnings are projected to reach a record \$153 million, a \$13 million increase over

last year's income. Expenses for 1997 are estimated to be \$50 million and gross income will total approximately \$203 million by Dec. 31. The Fund has \$86 million in reserves, a conservative amount based on the number of problem code credit unions (318 credit unions, with \$2 billion in shares), which represent less than 1 percent of total shares.

As the Board voted to issue this year's refund, the Fund equity ratio stood at 1.32 percent, which is .02 percent above the maximum 1.30 percent operating level authorized by Congress. After dispersing the \$108 million dividend, the Fund will return to a 1.30 percent equity ratio by Dec. 31.

Credit unions maintain 1 percent of their insured shares in the Share Insurance Fund, adjusting the amount once a year to their current share levels. In waiving the 1998 insurance premium, NCUA is saying it does not need the funds (up to \$224 million) it is authorized by law to collect annually from credit unions.

Combining the dividends paid since the Fund was capitalized and restructured in 1985, the NCUSIF has refunded nearly \$350 million, and 1992 remains the sole year a premium was assessed.

November 1997, Number 9

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## Dennis Dollar and Yolanda Wheat Are Confirmed

Dennis Dollar and Yolanda Wheat were confirmed by the U.S. Senate Oct. 9, 1997, to serve six-year terms on the NCUA Board. Mrs. Wheat has been serving on the NCUA Board since sworn-in as a recess appointee April 15, 1996.

Nominated by the President July 31, 1997, Mr. Dollar appeared before the Senate Banking Committee for his confirmation hearing Sept. 31. Senate Majority Leader Trent Lott (R) and Senator Thad Cochran (R), both from Mississippi, joined Dollar at the witness table during his confirmation hearing. Both praised his experience and expertise and expressed their support for his nomination.

Dennis Dollar told the Committee that as a six-year credit union manager he dealt day-to-day with the issues facing our nation's credit unions and their members. "I have sat across the desk from the member of limited means who said 'I can't send my daughter to college without this loan' or 'my son will not have clothes for school unless my credit union can help me.'"

## Supreme Court Hears AT&T Case



Photo by Robert L. Knudsen - Photography, Inc.

October 6, "I think our attorneys did an outstanding job and I am very hopeful NCUA and credit unions will prevail in this historic case," Chairman Norman E.

D'Amours told the media on the steps of the Supreme Court following oral arguments in the NCUA vs. First National Bank and Trust of Asheville, N.C., lawsuit. A Supreme Court decision is expected by early 1998.

## News Briefs

- **CU Failures Remain Low** — The National Credit Union Share Insurance Fund reports that 11 federally insured credit unions failed through mid-October. Losses to the Fund remain at zero and no money has been added to the Fund's \$86 million reserve account for over three years. Nearly \$7.2 million has been discharged from reserves and \$3.2 million has been recovered from failures through Sept. 30, 1997.
- **CDFI Funds Awarded** — Eleven credit unions were awarded \$3.3 million in the second round of 1996 Community Development Financial Institutions funding by the Treasury Department. In addition, the National Federation of Community Development Credit Unions was awarded \$3.2 million under a first time assistance program to intermediary components. The Federation will redistribute its award to smaller, never awarded credit unions often thwarted by the complexities of the CDFI application.

- **EFT Forms Due** — Approximately 6,200 credit unions have returned the forms to activate NCUA payments via electronic funds transfer (EFT). The Debt Collection Improvement Act of 1996 requires NCUA to make all payments electronically by Jan. 1, 1999. Credit unions and vendors should return completed EFT forms as soon as possible so necessary software can be written and tested to activate the required electronic payment system.
- **NCUA Working With OPM** — Working directly with the Office of Personnel Management (OPM), NCUA is aggressively implementing plans to take corrective actions to bring NCUA's hiring program into compliance with OPM standards.

- **Treasury Study Results Expected in November** — The Treasury Department's study of the National Credit Union Share Insurance Fund and corporate credit unions, scheduled for release Sept. 30, is now expected by late November.

### Upcoming Board Votes

The NCUA Board is expected to schedule a vote by yearend on the following items:

- NCUA Budget for 1998/1999
- Operating Fee Scale
- Delegations of Authority
- Final CUSO Rule
- Final Member Business Loan Rule
- Fixed Asset Rule, Part 701.36
- Final Rule, Part 725.19, CLF Collateral

## ABOUT INVESTMENTS

# Due Diligence of Corporate CUs

The implementation of revised investment regulations, Parts 703 and 704, has reinforced the obligation of credit



unions to evaluate business counterparties and make a reasonable determination of creditworthiness. Corporates (CCUs) are one such major business counterparty.

Credit unions should focus on measures of capital, earnings, liquidity, and interest rate risk. Book capital and the income statement have always been available. The new 704 regulation requires CCUs to regularly compute a fair value of capital called net economic value or NEV. Embedded in this measure is information about both solvency and the future earnings stream. If NEV is positive, the CCU has a positive net worth. It follows that positive net worth translates to solvency (for a going-concern or a liquidation). Since NEV is computed by subtracting the present value of liabilities from the present value of assets, a change in NEV implies a directional change in future earnings (a measured decline in

NEV indicates diminished earnings for that measured scenario and vice versa).

Part 704 also requires the computation of the ratio of NEV to the fair value of assets (the "NEV ratio"), projected net income and analysis of adverse changes to liquidity for various stressed interest rate scenarios. Some CCUs already include some of this information in reports to members and it is likely to become common practice.

Also, credit unions should become familiar with a CCU's risk management philosophy and general risk-taking strategies. Credit unions should gain comfort with information provided by CCU's on these topics. For most CCUs, prudent exposure to market, liquidity, and credit risk is an integral part of their earnings and capital plans. Credit unions should have some comprehension of how management measures, monitors, and controls these risks. Other risks, like operational, business or legal risks, are more difficult to assess, but the financial, risk exposure, and risk management information mentioned above can provide a solid start to the due diligence process.

## NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Norman D'Amours, Chairman**  
**Yolanda T. Wheat, Board Member**  
**Dennis Dollar, Boare Member**

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

Robert E. Loftus, *Director,*  
*Office of Public and Congressional Affairs*  
 Cherie Umbel, *Editor*  
 Lesia Bullock, *Contributing Writer*  
 Barbara Walker, *Graphics*

National Credit Union Administration  
 1775 Duke Street  
 Alexandria, VA 22314-3428

## BOARD ACTIONS

### Comments Sought on Community Chartering Amendments

The NCUA Board issued proposed amendments to update the requirements for a new, expanding, or converting community charter with a 30-day comment period.

The proposed changes clarify the documentation requirements necessary to obtain a community charter. Most importantly, the community charter must be prepared to serve all segments of the community. The proposal clarifies the authority of the NCUA Board to take supervisory and/or administrative action against any credit union that fails to follow its marketing plan and/or business plan to implement service to all segments of the community. Comments are also sought on deleting the requirements for converting credit unions to provide written evidence of community support such as letters of support, petitions, or surveys.

The NCUA Board is also requesting comments on the issue of overlaps and the use of exclusionary clauses with a 60-day comment period. Some questions asked in the proposal include:

- Will small and low-income credit unions be affected by overlapping fields of membership?
- From the member's perspective, what harm or benefit is derived from exclusionary clauses?
- Is overlap protection necessary for a credit union properly serving its members?
- What confusion, if any, is created for a credit union member when he or she is unable to join a community credit union because he/she is part of an excluded group?
- Do overlapping fields of membership increase or decrease services to the member?
- Should NCUA consider safety and soundness concerns in the advent of credit unions with overlapping fields of membership?

### Overhead Transfer Rate Remains 50 Percent

NCUA will continue to transfer 50 percent of the funds to cover agency expenses from the National Credit Union Share Insurance Fund for FYs 1998, 1999, and 2000 and, based on consistent results, suspended the time-consuming, expensive annual time study survey in 1998 and 1999.

From 1985 to 1994, NCUA conducted annual studies to evaluate the time agency staff spent on regulatory and insurance related activities. Examiners completed surveys and over 1,000 forms were compiled and evaluated annually. A smaller sample was collected in 1994, and in 1997 a short and long form and sample examination reports were used to determine if results varied from the time studies previously performed by field staff. Results consistently support using a 50 percent cost transfer from the Fund.

### Charter Conversions and Expansions

The NCUA Board approved a request to convert the Lubbock, Texas, \$22.8 million **WesTex Federal Credit Union** to a community-based charter that will serve Lubbock County and add adjoining low-income Hale County. The multiple-group credit union has gained authority to serve a potential 231,000 people in Lubbock County and 35,000 in Hale County, Texas.

**Mountain Empire Federal Credit Union**, a \$7.6 million credit union in Marion, Va., gained authority to convert from a multi-occupational to a low-income community charter that will serve the 109,000 people who live, work, and worship and business entities located in the remote, primarily low-income counties of Smyth, Wythe, and Washington, Virginia.

**Meridian Mutual Federal Credit Union**, a \$13.3 million credit union in Meridian, Miss., gained authority to convert from an occupational to a community-based field of membership able to serve the potential 71,000 people who live, work, or worship and business entities located in primarily low-income Lauderdale County, Mississippi.

**Mid-Atlantic Corporate**, Harrisburg, Pa., gained authority to expand its field of membership to include the Pennsylvania Credit Union Foundation. The Foundation is a charitable credit union organization that provides grants to credit unions and credit union related organizations that assist low-income community members. PACUF sought membership in Mid-Atlantic to use the corporate rather than a bank for essential deposit and disbursement services.

### Converting From Federal to Private Insurance

The NCUA Board granted approval for state-chartered, \$200 million **Alabama Telco Credit Union**, Birmingham, to convert from federal to private insurance coverage of members' deposits, contingent upon a majority "yes" vote by at least 20 percent of the members.

**Maumee Valley FCU**, Toledo, Ohio, received NCUA approval to convert to an Ohio state-chartered credit union with private insurance coverage on member deposits. The required vote by members has taken place and final approval will conclude when Ohio grants the credit union its state charter.

**Greater Indianapolis Firefighters FCU**, Indianapolis, Ind., gained authority to convert to state-chartered, privately-insured credit union contingent upon completion of an approving membership vote and Indiana issuing them a state credit union charter.

Merging \$4.5 million **YSU Federal Credit Union** of Youngstown, Ohio, gained NCUA Board approval to convert insurance coverage to the private carrier of its merger partner, Associated School Employees Credit Union, provided a membership vote sanctions the insurance conversion.

### BUCS FCU Can Convert to Mutual Savings Association

The NCUA Board granted \$58 million **BUCS Federal Credit Union**, Owings Mills, Md., the authority to convert to a mutual savings association contingent upon a majority of the credit union's members voting to sanction the conversion.



## Legislative Update

NCUA's Office of Public and Congressional Affairs has had a busy few weeks monitoring the flurry of activity that comes before the end of a Congressional session. Below are the highlights of some of the issues which affect NCUA and credit unions.

**Field of Membership:** H.R. 1151 now has 124 cosponsors; however, action on field of membership legislation is unlikely to occur until the Supreme Court announces its decision in the AT&T case.

**Bankruptcy:** On September 25, Banking (and Judiciary) Committee member Bill McCollum (R-Fla.) and Rep. Rick Boucher (D-Va.) introduced H.R. 2500, the "Responsible Borrower Bankruptcy Protection Act of 1997." The bill would restrict the ability of certain consumers to elect Chapter 7 bankruptcy, which allows all debts to be written off. Instead, the bill would require certain consumers to use Chapter 13, which requires some repayment.

The National Bankruptcy Commission released its long-awaited report Oct. 21 at a Senate Judiciary Committee hearing featuring statements from all nine members of the Commission. Sens. Chuck Grassley (R-Iowa) and Dick Durbin (D-Ill.) also intro-

duced bankruptcy legislation as S. 1301 on Oct. 21.

**Audit Requirement:** Reps. McCollum and Spencer Bachus (R-Ala.) introduced H.R. 2552, the "Credit Union Audit Improvement Act" on September 25. H.R. 2552 would require all credit unions with \$10 million or more in assets to have an annual audit by a CPA. Chairman D'Amours wrote to Rep. McCollum last month to explain that this measure is unnecessary and poses an unfair burden to credit unions.

**Financial Services Modernization:** Although a House Commerce subcommittee approved this bill, H.R. 10, last week and the full Commerce Committee is now slated to consider the measure this week, the bill is unlikely to see floor action before Congress recesses due to the ongoing struggle between the banking and insurance industries. The House Banking Committee approved a different version of the bill this summer that the banking industry favors, while the insurance industry favors the Commerce Committee's version.

Neither NCUA nor credit unions would be directly affected by provisions in either version of the bill, but PACA is monitoring the measure for potential amendments that would affect credit unions.

## Gloria Harris Named Acting Human Resources Director



Chairman Norman E. D'Amours welcomes Gloria Harris to NCUA.

The NCUA Board selected Gloria K. Harris Oct. 14 to be acting director of the Office of Human Resources.

Harris has more than 20 years of specialized human resource management experience at several federal agencies. She was recommended to the NCUA Board by the National Academy of Public Administration's Center for Human Resource Management, following an intensive search for qualified candidates.

When Harris accepted this appointment, she was division director for human resource services at the National Weather Service (NWS), which has a national workforce of more than 3,800 employees.

Gloria Harris holds a bachelor's degree in psychology from the University of Maryland, and a master's degree in public administration from Central Michigan University.

## BOARD ACTIONS

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### Proposal to Amend FOIA Regulations

The NCUA Board is seeking comments for 60 days on a proposal to incorporate changes in its regulations which were required by the Electronic Freedom of Information Act Amendments of 1996 (E-FOIA.) E-FOIA was designed to make government records more easily accessible to the public and improve administration of FOIA programs.

This proposal does not affect how NCUA supervises credit unions; rather, it amends the agency regulations implementing the Freedom of Information Act, which was adopted in 1966 to establish the public's right to obtain information in government files.

The proposal includes procedures NCUA will use to expedite processing

requests, adds multi-track processing, and requires NCUA to make records available electronically on the Internet. The new proposal also clarifies what information to include when making FOIA requests and adds guidance for the public on how to obtain records filed with the Office of the Inspector General.

### Final Change to Part 792, Subpart C

The NCUA Board adopted a final rule change to the regulation which prohibits the release of nonpublic records and the testimony of NCUA employees in legal proceedings, except as provided in this rule.

Written in question and answer format, the rule provides procedures and information on how the agency will handle subpoenas or other requests for nonpublic NCUA records or the testimony of NCUA employees.

### Field of Membership Expansion Appeal Denied

The NCUA Board upheld the regional director's denial of the Louisville, Ky., Classroom Teachers FCU's request to expand to include employees of Eminence Schools because the two school groups do not share a core common bond. The schools do not share a common employer, do not report to the same school board, and are in different school districts.

*Internet users can read final rules and offer comments on proposals via the NCUA Web site at [www.ncua.gov](http://www.ncua.gov). Listed in the major News category are Recent Final Rules and Proposed Rules. The chartering policy proposal was published in the Federal Register Oct. 29.*

## Training Examiners in CUs Proves Beneficial

Posting examiners behind the scenes in operating credit unions, without the need to make judgment calls, continues to prove a worthwhile experience for both parties. All new examiners now observe operations in two varying size credit unions for 10 days, and evaluations continue to generate positive feedback from both examiners and credit unions.

A recent letter from Culver City Employees FCU, proves the point.



CULVER CITY EMPLOYEES FEDERAL CREDIT UNION

5770 Culver Blvd. | Culver City, California 90232-0507 | (310) 253-0060 | Fax (310) 839-3252

September 15, 1997

Tony Johnson, Supervisor  
National Credit Union Administration  
2300 Clayton Road, Suite 1350  
Concord, Ca. 94520

Dear Mr. Johnson,

I wish to thank you, Bob Porter and NCUA for choosing our Credit Union to participate in your EWIC program. At first I was dubious about participating in the program, wondering what could we, a small Credit Union in the realm of many, possibly contribute to our regulatory agency. But now I feel as if it were I, who came away with the greater benefit.

Examiner Julie Rost was most professional, sincerely eager to hear about our operations and listened with the utmost respect. She observed without judgmental comments. I was able to present and explain in detail our internal policies and procedures, and the whys and hows of their development over the years. And, yes, I felt comfortable discussing the increasing regulatory burdens and concerns I feel are placed on smaller Credit Unions.

I think it was one of the best things, with relationship to NCUA, that has happened in our Credit Union for quite a long time. In presenting our "side of the story" I personally was able to honestly evaluate our own Credit Union in the positive manner in which we have always operated, and to see our many accomplishments. I recognize now we should "pat ourselves on the back" for a job well done in serving our members in a professional fiduciary manner over these many years. And we plan to continue to do so, instead of being overly concerned about whether we are or whether we are not on the competitive fast track with the "hottest", "largest", and most "profitable" institutions.

I needed to be reminded that yes, that even though we operate on a small scale, what we do here in our Credit Union is important. And that the Board, Committees and staff are and should be very proud. Over the years I have seen the role between Credit Union and Regulatory Examiner change. I understand progress demands change, and change is essential, but I also realize that some things never change. The non-changing aspects still demand attention and should not be overlooked or demeaned in any way. We work hard here at our Credit Union to preserve the Credit Union philosophy, and believe in serving our members in a professional business manner.

So, as a CEO of a small Credit Union, I was more than delighted we participated in the program. And it also gives me great pleasure to know that at least one examiner, somewhere out there in Kansas, knows in considerable detail how we operate and how dedicated we are here in our California Credit Union. Please forward my personal thanks to Julie Rost.



Sincerely,

Glenda Young, CEO

## Confirmation

continued from page 1

Discussing the regulator's role in the industry, he said, "I have seen the regulatory process first hand, have experienced the depth of an NCUA examination, and am a committed adherent to the importance of safety and soundness consideration. Of all the member services we provide at our credit union, I tell my members daily that the most important member service we can provide is a strong, safe, sound credit union."

Senator Jack Reed, (D-RI) posed Mr. Dollar's single question. He asked whether, in light of credit unions' strong growth, they should be subject to banking provisions such as CRA. Dollar replied that credit unions are not subject to CRA because of their structure not their size. He continued that NCUA's interpretation of field of membership is important for credit union safety and soundness, citing his own Gulfport VA Federal Credit Union as a example. Without the ability to expand beyond its original sponsor group, which had over 2000 employees in the late 1970s but is down to less than 300 now, today's healthy Gulfport VA FCU could have instead had safety and soundness problems at this time, he said. The ability to take in select employer groups from small businesses who could not form their own credit union, he indicated, helped to meet the needs of those small business employees and protected the credit union at the same time.

Banking Committee Chairman D'Amato closed the discussion complimenting Dollar on his "very impressive" answer. Chairman D'Amato said, "I think you've given a firsthand illustration of how and why retreating from a narrow definition of field of membership has helped the (credit union) system. There may be a need at some point in time to consider just how far a credit union can take its mission... but I like the competition it creates and you've given an excellent response."

Dollar was sworn into office as an NCUA board member in Mississippi October 15, 1997. His term expires April 10, 2005. Wheat was sworn into office April 15, 1996 and her term expires August 2, 2001.



Sept. 31 — Dennis Dollar, flanked by Senate Majority Leader Trent Lott (left) and Senator Thad Cochran (right), appears before the Senate Banking Committee at his NCUA confirmation hearing.

## Strategic Plan Sent To Congress

The NCUA Board delivered to lawmakers in October its five-year strategic plan for supervising the credit union system and operating the federal agency.

The 16-page plan outlines NCUA's strategic goals for 1997 through 2002 in six critical areas: federal credit union supervision, federal share insurance, liquidity management, community development, consumer compliance, and resource management.

The Board's priorities are to:

- Promote a system of financially sound, well-managed federal credit unions.
- Protect member savings in federally insured credit unions, thus preserving federal taxpayer dollars.
- Meet credit unions' liquidity needs through the Central Liquidity Facility and a financially sound, well-managed corporate credit union system.
- Promote the availability of credit union financial services, in general, to American consumers and, in particular, to people of small means;
- Ensure credit union compliance with consumer regulations; and
- Responsibly manage the agency's human, financial, and technical resources.

Concentrating on these six goals will enable the NCUA to realize its mission to: monitor and promote safe and sound credit unions; responsibly administer the share insurance fund; and encourage service to American consumers, particularly to people of small means, while

providing a flexible regulatory environment and carefully managing the agency's resources.

The Government Performance and Results Act (or GPRA) mandated that all federal agencies better inform Congress and the public about their activities by developing strategic plans. The plan is available to review and download on NCUA's Website under "Organization."

## CDRLP Adds \$1 Million

NCUA's Community Development Revolving Loan Program (CDRLP) will gain an additional \$1 million to lend to low-income designated credit unions in 1998, bringing the total CDRLP to \$8 million.

The additional \$1 million was included in the FY 1998 Department of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act (P.L. 105-65) signed by President Clinton Oct. 27. The funding was not in final House or Senate appropriation bills, but Rep. Marcy Kaptur (D-Ohio) convinced her colleagues during the House-Senate conference that the allocation was essential.

Under NCUA's stewardship since 1987, the CDRLP's original \$6 million appropriation added a \$1 million appropriation in FY 1997 and has revolved more than \$15 million in low-interest loans to 86 low-income credit unions.

## Conversion and Expansion Guidelines Available



<http://www.ncua.gov>

If your credit union is considering expanding or converting its charter, the NCUA *Chartering and Field of Membership Manual* (IRPS 94-1) provides detailed guidance of NCUA requirements. The manual is on NCUA's Web site at [www.ncua.gov](http://www.ncua.gov). Use a Visa or MasterCard to obtain a printed copy with the 1996 update for \$6.50 by FAX, at 703-518-6433, or phone at 703-518-6340.

# NCUA News

National Credit Union  
Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

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